

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58107

**SPOKANE REGIONAL HEALTH DISTRICT**

Spokane County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: March 14, 1997

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**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Spokane Regional Health District is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington (RCW) 43.09.260*. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the chairperson and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the chairperson and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. Controls Should Be Improved Over Accounts Receivable In Patient Accounts

During our review of patient accounts receivable internal control system, which collected in excess of \$500,000 during 1995, we noted the following weaknesses:

- a. The same staff creates the accounts receivable, opens mail, posts accounts receivable, and receipts funds. These functions are incompatible to good control, as they place the asset and the accounting for the asset with the same individual.
- b. Patient accounts is not maintaining a control account. The control account ensures that all amounts billed and received are properly posted and accounted for.
- c. The patient accounts receivable system does not restrict the receipt date to the current date. The system allows users to post amounts received as of any date in the past or future.
- d. A cash register receipt is not given to clients when payments are made.
- e. There is no review of the prenumbered service records entered into the system to ensure they are all properly accounted for.

The district has not implemented strong controls over patient accounts receivable. Additionally changes were made by the software developer that did not fully consider the impact to the district's internal control system.

A strong system of internal controls will decrease the risk that public funds will be misused or misappropriated.

We recommend the district establish policies and procedures over the patient accounts receivable internal control system. These should include but not be limited to the following:

- a. Segregate the duties so the control of the cash and the accountability for the cash are not performed by the same individual.
- b. Maintain and review the control account utilizing someone independent of the cash receipting and accounts receivable posting.
- c. Develop controls to the patient accounts receivable system which restricts posting of payments to the actual date data is entered.

- d. Issue cash register receipts to all clients for payments received at the time of service.
- e. Monitor the numerical sequence of service records to ensure receivables are properly entered.

2. Internal Controls Over Cash Receipting Should Be Improved In The Vital Statistics Unit

During our review of the cash collection procedures in the vital statistics unit, which collected in excess of \$295,000 during 1995, we noted the following weaknesses:

- a. Checks are not restrictively endorsed upon receipt.
- b. Checks received through the mail are not receipted into the cash register when received. The checks are held until the associated transaction is processed which could take several days.
- c. There is no comparison of the number of seals imprinted on certificates to certificates issued or revenues collected. The unit does not use the internal counter on the imprint machine for the reconciling process. Without these controls, the unit is unable to ensure that all receipts collected were deposited for the public's benefit.
- d. Security paper, the paper that death certificates and birth certificates are issued upon, is not inventoried nor is waste paper kept or tracked. The unit is unable to determine if all of the money collected from sale of these documents was properly deposited in the bank for the public's benefit.
- e. The same staff open the mail, complete the request and enter the transaction into the cash register. This represents incompatible functions, as the same person has complete control of the transaction.
- f. Cash receipts are not deposited timely as required.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours.

These conditions exist because the district has not implemented a strong system of internal controls to decrease the risk that public funds will be misappropriated.

We recommend the district establish policies and procedures to strengthen the internal control system over cash receipting. These should include but not be limited to the following:

- a. Restrictively endorse checks upon receipt.
- b. Receipt all funds into the cash register when received and issue receipts to persons on site.
- c. Utilize the counter, on the machine used to imprint the seals on official documents, for reconciling sales to money collected.

- d. Secure and inventory the security paper, including keeping track of waste paper, and reconcile usage to money collected.
- e. Separate job responsibilities so that the same person is not responsible for all aspects of the transaction.
- f. Deposit receipts timely as required.

Auditee's Response

*As a result of discussions between Health District staff and representatives of the State Auditor's office during the course of this audit, some immediate measures to strengthen internal controls have already been implemented.*

*All recommendations regarding cash receipting and segregation of duties will be implemented over the next sixty days, as Finance staff and staff in the work units review and resolve internal control and service delivery options.*

*District policies and procedures to document internal control principles and standards will be drafted as soon as possible. Training of all staff involved in the revenue collection process will be ongoing and regularly scheduled. Implementation of internal control measures addressed in the policies and procedures will occur throughout the year. The District is currently establishing a schedule for internal review of cash receipting functions.*

Auditor's Concluding Remarks

We appreciate the district's response to our audit findings. It appears that the concerns noted in these findings are adequately addressed. We will review the district's progress in these areas during our next regularly scheduled audit.

We also wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the accompanying general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Spokane Regional Health District, at December 31, 1995, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 1997, on our consideration of the district's internal control structure and a report dated January 30, 1997, on its compliance with laws and regulations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Spokane Regional Health District taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the chairperson and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to time study and donations as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments* and grant agreement/contract
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Spokane Regional Health District complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the chairperson and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Chairperson, Spokane Regional Board of Health  
Spokane Regional Health District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane Regional Health District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 30, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated January 30, 1997.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Receipts
  - Disbursements
  - Payroll
  - General ledger
- **General Requirements**
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Receivables
  - Accounts payable
  - Purchasing and receiving
  - Inventory control
  - Property, plant, and equipment

- **General Requirements**

- Davis-Bacon Act

- Relocation assistance and real property acquisition

During the fiscal year ended December 31, 1995, the district expended 53 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the chairperson and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM  
State Auditor

January 30, 1997

**SPOKANE REGIONAL HEALTH DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Status Of Prior Findings**

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The finding contained in the prior audit report was resolved as follows:

1. The District Should Comply With Federal Requirements

*Resolution: The district formalized its indirect cost plan in accordance with A-87 and has developed a fixed asset data base which will allow the district to track federal assets in accordance with federal requirements.*